ANNUAL REPORT 1985



# BANK OF BRITISH COLUMBIA

*Canada's Western Bank*

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## ANNUAL STATEMENT HIGHLIGHTS For the year ended October 31

| *(in thousands of dollars except per share amounts)* | **1985** | 1984 |
|---|---|---|
| Total Assets | **$3,250,487** | $3,067,349 |
| Total Deposits | **$2,894,380** | $2,892,389 |
| Total Loans | **$2,764,792** | $2,490,114 |
| Capital and Reserves | **$224,318** | $74,763 |
| Net Income (Loss) | **$7,527** | $(6,990) |
| Net Income (Loss) Per Common Share* | **$0.14** | $(1.96) |
| Dividends Paid | | |
| Preferred, Series A | **$1,570** | $1,649 |
| Preferred, Series B | **$1,776** | $1,776 |
| Common — cash | **—** | $1,861 |
| — stock dividend | **$4,847** | — |
| Dividends Paid Per Share | | |
| Preferred, Series A | **$2.28** | $2.28 |
| Preferred, Series B | **$2.22** | $2.22 |
| Common | **$0.15** | $0.36 |
| Number of Common Shares Issued | **33,964,324** | 5,169,526 |

*After giving retroactive effect to the 1985 stock dividend.

Our Bank entered the 1985 fiscal year with a solid financial base and returned to profitability in the first quarter. Earnings have steadily improved throughout the year, resulting in a net income of $7.5 million compared to a loss of $7 million in 1984.

These results were obtained during a period of turmoil in the banking industry. Western banks in particular, were the subject of intense public scrutiny. The failure of two Western Canada-based banks and the merger of a relatively small national bank resulted in concern among depositors and investors. Liquidity became the highest priority and those banks who relied heavily on wholesale funding found that decreased confidence translated into rapidly eroding deposits. Our Bank experienced some attrition in money market funds, particularly from Eastern Canada, but this attrition was more than offset by increased deposits in Western Canada. Our branch network and strong retail deposit base continued to provide stable funding, and, in fact, core accounts grew throughout the year.

The Canadian banking system is sound and our Bank is strong, well-capitalized and poised to serve our principal markets in 1986. The outlook for our future is bright as we continue building our institution. A brief review of 1985 is in order to trace the events that contributed to the strengthened position we enjoy today.

The Bank's financial restructuring, commenced in late 1984, laid the groundwork for our increased capital base. The final phase of that restructuring was completed in February, 1985, when approximately $81 million from our public offering of common shares was added to capital.

In February, the Pioneer Trust Company encountered financial difficulties which culminated in insolvency and the closure of its branches in Manitoba, Saskatchewan and Alberta. After a short period of intense negotiations we obtained their branch premises and offered employment to all their former branch employees. On February 16, 1985, we opened nine former Pioneer Trust offices as branches of Canada's Western Bank. The short term cost of this expansion is a drag on earnings but the majority of those branches should be making a positive contribution over the next year. The opening of nine new branches with only 96 hours preparation required long hours, teamwork and dedication on the part of a large number of existing Bank staff and the new employees. They responded magnificently and provided a smooth and successful transition.

Our emphasis on automation was displayed publicly as all branches were converted to "on-line" operations by the end of July. We connected our automated banking machines to The Exchange Network, which provides our customers with instant access to their accounts at over 5,000 locations in Canada and the United States. Rapid advances in the areas of automation and improved management information systems, while costly in the short term, are necessary for us to remain competitive.

1985 saw our Bank act aggressively to stay at the forefront of retail banking. Our product line is being streamlined and our products made more attractive to the consumer. A new Bonanza Account was launched in August and six month objectives were surpassed in less than three months. The special term deposit program in late fall was particularly successful, resulting in a considerable increase in personal funds to the Bank. Further improvements in our product lines are planned for fiscal 1986. Our branch focus is changing as we separate the processing and administrative functions from sales and service. Use of telemarketing programs to reach our customers and develop new markets has met with initial success and will be refined and expanded.

Our executive team was significantly strengthened in 1985 through the addition of Mr. George E. Hare, Vice-Chairman, whose responsibilities include Treasury, Corporate Banking, Systems, Operations and Finance; Mr. Dale G. Parker, President, Canadian Banking Operations with responsibility for Domestic Banking, Credit, Marketing and Human Resources; Mr. George L. Farinsky, President, U.S. Operations and Mr. William H. Adams, Senior Vice-President, U.S. Operations, whose responsibilities include Marketing and Corporate Development in Northern California and the northwestern United States. The impact of these new executive officers is already apparent. They will continue to be instrumental in guiding our Bank towards improved performance and improved service to our customers.

Our Board welcomes the election of four new Directors, Mrs. Wendy B. McDonald, President and Chairman of B.C. Bearing Engineers Ltd., and three officers of our Bank: Mr. George L. Farinsky, President, U.S. Operations, Mr. George E. Hare, Vice-Chairman, and Mr. Dale G. Parker, President, Canadian Banking Operations.

The Board would like to recognize the service of three distinguished Directors who either retired from the Board this year or will not be standing for re-election at the Annual Meeting in January, 1986. Mr. Arthur Fouks, Q.C., a Director since 1973, retired this summer. Not standing for re-election are two men with long and valued service to this institution. Mr. Albert E. Hall was the founding Chairman of the Bank of British Columbia in 1968. He directed this Bank through its early, formative years and retired as Chairman in 1978. Mr. Victor Dobb, who retired earlier this year, was with our Bank for 15 years, most recently as Executive Vice-President, Credit. Both these men are extremely well respected in our industry and their experience and wise counsel will be missed.

Many of the issues currently facing our Bank are common to the industry. We have a non-performing loan portfolio of $57 million, or approximately 1.75% of total assets. The figure is below the industry average and reflects the actions taken at the end of last year to sell off the non-performing real estate loans. Our Bank has a well diversified asset base without significant exposure to any one industry. Asset quality is a concern to the entire industry and we were pleased that the soundness of our institution was confirmed through the special audit performed by officers from all the major Canadian Banks acting as inspectors under the direction of the office of the Inspector General of Banks.

In 1985 our Bank dramatically increased branch representation in the Western provinces. We have improved profitability throughout the year. We have improved our product lines and continued our rapid advances in technology. Throughout the most trying times the Canadian banking system and western banks, in particular, have endured, our customer base has increased and investor confidence has strengthened.

In 1986 and beyond, we will continue our emphasis on deposit gathering. Broadly based funding obtained through an efficient branch network remains a primary objective. Our operational systems will be further refined and enhanced to improve delivery of our products and services. These improvements will be realized in conjunction with increased productivity and closely monitored costs. As we invest more in Western business, our management will continue to play an increasingly vital role in ensuring our asset portfolio is sound.

Our future is bright as is the future of Western Canada. The economies of the Western provinces are showing encouraging signs of recovery and your Board of Directors continues to believe that we will see a slow but steady improvement in the next year.

A special note of appreciation should be expressed to all the Bank employees whose dedication and hard work helped make these achievements possible. The Directors are enormously gratified by the tremendous support shown by our shareholders and customers for Canada's Western Bank.

Western Canadians believe, as we do, in the need for a strong, western-based financial institution that is responsive to the needs of the Western Canadian marketplace. The Bank of British Columbia — Canada's Western Bank.

Edgar F. Kaiser, Jr. *Chairman, President and Chief Executive Officer*

### Financial Restructuring

The financial restructuring, begun in fiscal 1984 and completed in fiscal 1985, had a significant effect on the Bank's 1985 operating results. The restructuring raised substantial new common share capital and disposed of certain non-performing loans and other assets.

The restructuring involved a private placement of common shares, a public offering of common shares, the merger between the Bank and BBC Realty Investors Trust (the "Trust") and the sale (the "Asset Sale") by the Bank of a portion of its non-performing loan portfolio and other assets to Ormskirk Investments Ltd. The Asset Sale was completed in fiscal 1984 and as such a complete description of the transaction is available in the Bank's 1984 Annual Report. The private placement of common shares generated $72 million of new capital, the merger between the Bank and the Trust resulted in an additional $14.7 million of common shares being issued and the public offering of common shares raised a further $81.1 million of new common share equity. In total the financial restructuring resulted in $167.8 million of additional common shareholders' equity being added to the Bank's capital and reserves. Specific details on the restructuring are provided in Note 1 to the Consolidated Financial Statements.

### Net Income

The Bank earned $7.5 million in 1985, rebounding from a loss of $7.0 million in 1984. After allowing for the payment of dividends on preferred shares, the 1985 net income represents earnings of $0.14 per common share, a major turnaround from the loss of $1.96 per common share in 1984.

The Bank's Domestic Operations contributed $5.5 million in 1985 compared to a loss of $8.8 million in the previous year. Increases in net interest income and other income and a reduction in the provision for loan losses were the main factors behind the improved contribution.

The contribution from the Bank's International Operations to net income in 1985 amounted to $2.0 million, an increase of $0.2 million from the 1984 level. Expansion of the Bank's operations in the United States, along with a reduced provision for loan losses, resulted in the improved contribution from International Operations.

### Assets

Total assets at October 31, 1985 were $3,250 million, an increase of $183 million or 6% from the previous year end. The assets employed by the Bank's International Operations declined by $117 million during the year to $557 million. The decline occurred in the less profitable sovereign risk and interbank deposit portfolios, offset partially by growth in the commercial loan portfolio, particularly in the United States. Domestic assets, on the other hand, increased by 12.5% during the year from an October 31, 1984 position of $2,393 million to $2,693 million at year end. Continued strong demand for residential mortgages, solid growth in the Bank's commercial loan portfolio and the merger between the Bank and the Trust were the major factors behind the growth in Domestic assets.

### Canadian Dollar Deposits

Canadian dollar deposits grew by $159 million or 7.4% during the year to $2,306 million at October 31, 1985. This growth was the net result of a marked increase in the Bank's personal, demand and corporate cash management deposits and a reduction in the Bank's more expensive non-personal wholesale deposit portfolio. Personal deposits grew by $125 million or 10.5% during the year with the strongest growth coming from the guaranteed investment certificates issued by the Bank's wholly-owned mortgage subsidiary, Bank of British Columbia Mortgage Corporation. The Bank's improved Bonanza Account also showed exceptional growth in the latter part of 1985 increasing by $54 million or 37% in the last three months of the year. Demand deposits and corporate cash management accounts grew by $95 million or 65% during the year. The combined growth of these deposit categories allowed the Bank to reduce its non-personal wholesale deposit portfolio by $61 million during 1985.

### Net Interest Income

The Bank's taxable equivalent net interest income increased by $4.5 million or 5.0% to $92.7 million in 1985. Net interest income from International Operations, at $8.9 million, was unchanged from the amount earned in 1984. The improvement in 1985 came from the Bank's Domestic Operations where net interest income increased by $4.5 million to $83.8 million for the year.

The spread for both Domestic and International Operations improved in 1985 with the result that the total Bank spread, on a taxable equivalent basis, increased to 2.94% from 2.82% in 1984. The major reason for the improvement in the spread on International Operations from 1.18% in 1984 to 1.26% in the current year was the improved asset mix as discussed under "Assets" above.

The spread on Domestic Operations was 3.31% in 1985, an improvement of 0.12% from 1984. The financial restructuring was the major factor underlying this improvement. Specifically, the improved capital position and the reduction in the level of non-performing loans were direct causal factors behind the spread improvement.

Average non-performing loan balances were lower in 1985 than in 1984 mainly as a result of the Asset Sale which occurred on October 31, 1984. The positive effect of the reduced average balances was that the overall cost of funding the non-performing loan portfolio was substantially lower. While the cost of funding non-performing loans is the major influence these loans have on the operating results of the Bank, they also affect interest revenue. Non-accrual loans have substantially reduced yields because accrued interest is reversed whenever a loan is placed non-accrual and revenue on these loans is only recognized on a cash basis. During 1985 the net effect of non-performing loans on the Bank's interest revenue was to reduce it by $106,000.

### Loan Loss Experience & Provision for Loan Losses

The Bank's loan loss experience for 1985 was $36.1 million, $49.3 million or 58% below the 1984 level. Loan loss experience as a percentage of eligible loans for 1985 was 1.24%. While this ratio is significantly lower than the 3.24% and 2.16% of the two preceding years, it is still above historical levels reflecting the fact that the economies of British Columbia and Alberta continued to encounter problems in 1985.

Under the accounting rules established for Banks by the Minister of Finance, actual loan loss experience is not charged to income but rather to the Bank's capital and reserves. The charge to income with respect to loan losses is a general provision for future loan losses. Note 2(e) to the Consolidated Financial Statements provides further detail on this subject. The provision for loan losses charged to income in 1985 amounted to $16.1 million, compared to $37.9 million in 1984.

### Other Income

Other income consists of all income earned by the Bank other than interest and dividends received from loans, leases, securities and deposits with other banks. It basically represents the fees received for the variety of services provided by the Bank to its corporate and consumer clients.

At $26.7 million for the year, other income increased by $8.9 million or 50% from the 1984 level of $17.8 million. The 1985 performance was an all-time high for the Bank both in terms of absolute dollars and as a percentage of average assets (0.85% in 1985).

Most categories of other income improved from the levels attained in 1984. The largest improvement occurred in the Bank's loan related fees, primarily due to an expansion of the Bank's activities in the United States. There was also a significant improvement in service charge income due to price increases and increased volumes, particularly in the Bank's PrimeLine and Current Accounts.

### Non-Interest Expenses

Non-interest expenses increased from $81.3 million in 1984 to $89.7 million in 1985. There were two major factors underlying this increase in non-interest expenses. The first was the Bank's expansion into Saskatchewan and Manitoba, begun in February 1985, through the re-opening of former Pioneer Trust Company offices as Bank of British Columbia branches. This expansion resulted in one-time start up costs and incremental ongoing operating expenses. The second major factor was the Bank's continued commitment to automation. All of the Bank's domestic branches were converted to an on-line banking system during 1985, enabling the Bank to provide a higher level of service to its clients. In addition, service to clients was further enhanced through linking to The Exchange, an automated banking machine network which provides Bank customers with access to their accounts at over 5,000 locations in North America. The additional operating expenses associated with providing this improved service to customers, as well as the associated start up costs, represented incremental non-interest expenses in 1985.

Two smaller yet significant factors behind the increase in non-interest expenses were increased levels of advertising expenditures and higher levels of capital tax resulting from the Bank's significantly increased capital base.

### Capital

At October 31, 1985 the Bank's total capital and reserves were $224.3 million, an increase of $149.5 million or 200% from the October 31, 1984 level of $74.8 million. The increase in the Bank's capital and reserves is directly attributable to the financial restructuring previously discussed.

The ratio of capital and reserves to total assets was 6.9% at October 31, 1985, a major improvement from 2.4% at October 31, 1984. Another way of looking at this is that the Bank had $1 of capital for every $14.49 of assets at October 31, 1985 as compared to $1 of capital for every $41.03 of assets at October 31, 1984. The Bank of British Columbia remains the best capitalized of any major Canadian bank and one of the best capitalized in North America.

### Dividends

A stock dividend of 14.625 cents per share payable in common shares of the Bank was declared payable on March 29, 1985 to all holders of common shares of record at the close of business on March 12, 1985. Shareholders were entitled to one common share for each forty common shares held.

## CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES As at October 31

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| **ASSETS** | | |
| **Cash Resources:** | | |
| Cash and deposits with Bank of Canada | $ 69,061 | $ 57,400 |
| Deposits with other banks | 43,060 | 146,080 |
| Cheques and other items in transit, net | 3,067 | — |
| | 115,188 | 203,480 |
| **Securities** (Note 3): | | |
| Issued or guaranteed by Canada | 151,927 | 138,277 |
| Issued or guaranteed by provinces and municipal or school corporations | 1,741 | 1,677 |
| Other securities | 66,426 | 99,377 |
| | 220,094 | 239,331 |
| **Loans** (Note 4): | | |
| Loans to banks | 48,583 | 64,641 |
| Mortgage loans | 404,163 | 271,977 |
| Other loans (Note 5) | 2,312,046 | 2,153,496 |
| | 2,764,792 | 2,490,114 |
| **Other:** | | |
| Customers' liability under acceptances (Note 6) | 7,900 | 35,000 |
| Land, buildings and equipment (Note 7) | 36,501 | 31,862 |
| Other assets (Note 8) | 106,012 | 67,562 |
| | 150,413 | 134,424 |
| | $3,250,487 | $3,067,349 |

### Auditors' Report to the Shareholders of Bank of British Columbia

We have examined the consolidated statement of assets and liabilities of Bank of British Columbia as at October 31, 1985 and the consolidated statements of income, appropriations for contingencies, changes in shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Bank as at October 31, 1985 and the results of its operations and the changes in financial position for the year then ended in accordance with prescribed accounting principles applied, other than for the matter arising from the financial restructuring as discussed in Note 1(c) to the consolidated financial statements, on a basis consistent with that of the preceding year.

Vancouver, Canada
December 3, 1985

Deloitte Haskins & Sells
Peat, Marwick, Mitchell & Co.
Chartered Accountants

| | 1985 | 1984 |
|---|---|---|
| **LIABILITIES** | | |
| **Deposits** (Note 10): | | |
| Payable on demand | $ 183,517 | $ 138,360 |
| Payable after notice | 831,787 | 785,837 |
| Payable on a fixed date | 1,879,076 | 1,968,192 |
| | 2,894,380 | 2,892,389 |
| **Other:** | | |
| Cheques and other items in transit, net | — | 7,666 |
| Acceptances (Note 6) | 7,900 | 35,000 |
| Liabilities of subsidiaries, other than deposits (Note 11) | 71,759 | — |
| Other liabilities (Note 12) | 41,795 | 44,183 |
| | 121,454 | 86,849 |
| **Subordinated Debt:** | | |
| Bank debentures (Note 13) | 10,335 | 13,348 |
| **CAPITAL AND RESERVES** | | |
| Appropriations for contingencies | (70,784) | (43,787) |
| Shareholders' equity: | | |
| Capital stock (Note 14): | | |
| $2.28 cumulative redeemable preferred shares, Series A | 17,070 | 17,670 |
| $2.22 cumulative redeemable preferred shares, Series B | 20,000 | 20,000 |
| Common shares | 244,870 | 72,225 |
| Retained earnings | 13,162 | 8,655 |
| | 224,318 | 74,763 |
| | $3,250,487 | $3,067,349 |

EDGAR F. KAISER, Jr.
*Chairman, President and Chief Executive Officer*

GEORGE E. HARE
*Vice-Chairman*

## CONSOLIDATED STATEMENT OF INCOME For the Year Ended October 31

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| **Interest and Dividend Income:** | | |
| Loans | **$310,215** | $301,209 |
| Lease financing | **4,787** | 5,624 |
| Securities | **18,555** | 18,800 |
| Deposits with banks | **4,073** | 11,859 |
| Total interest and dividend income | **337,630** | 337,492 |
| **Interest Expense:** | | |
| Deposits | **245,568** | 254,757 |
| Bank debentures | **1,295** | 1,482 |
| Other | **3,164** | 25 |
| Total interest expense | **250,027** | 256,264 |
| Net interest income | **87,603** | 81,228 |
| Provision for loan losses | **16,109** | 37,881 |
| Net interest income after loan loss provision | **71,494** | 43,347 |
| Other income | **26,713** | 17,770 |
| Net interest and other income | **98,207** | 61,117 |
| **Non-interest Expenses:** | | |
| Salaries | **49,964** | 47,591 |
| Pension and other staff benefits | **2,336** | 2,726 |
| Premises and equipment expenses, including depreciation | **16,382** | 14,453 |
| Other | **20,985** | 16,564 |
| Total non-interest expenses | **89,667** | 81,334 |
| Net income (loss) before provision for income taxes | **8,540** | (20,217) |
| Provision (credit) for income taxes (Note 15) | **1,013** | (13,227) |
| Net income (loss) | **$ 7,527** | $ (6,990) |
| Net income (loss) applicable to common shares (Note 16) | **$ 4,187** | $ (10,407) |
| Net income (loss) per common share — in dollars (Note 16) | **$ 0.14** | $ (1.96) |

## CONSOLIDATED STATEMENT OF APPROPRIATIONS FOR CONTINGENCIES For the Year Ended October 31

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| Balance at beginning of year: | | |
| Tax-allowable | **$(60,466)** | $(13,400) |
| Tax-paid | **16,679** | 17,102 |
| | **(43,787)** | 3,702 |
| Changes during year: | | |
| Provision for loan losses included in the Consolidated Statement of Income | **16,109** | 37,881 |
| Loss experience on loans | **(36,106)** | (85,370) |
| Transfer to retained earnings | **(7,000)** | — |
| | **(26,997)** | (47,489) |
| Balance at end of year: | | |
| Tax-allowable | **(81,042)** | (60,466) |
| Tax-paid | **10,258** | 16,679 |
| | **$(70,784)** | $(43,787) |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| *(in thousands of dollars)* | For the Year Ended October 31 **1985** | 1984 |
|---|---|---|
| **Capital Stock** (Note 14) | | |
| Balance at beginning of year: | | |
| Preferred shares, Series A | $ 17,670 | $ 18,348 |
| Preferred shares, Series B | 20,000 | 20,000 |
| Common shares | 72,225 | 25,848 |
| | 109,895 | 64,196 |
| Changes during year: | | |
| Issued: common shares — for cash | 167,824 | — |
| — stock dividend | 4,821 | — |
| Transfer from contributed surplus — common shares | — | 46,377 |
| Purchased for cancellation — preferred shares, Series A | (600) | (678) |
| | 172,045 | 45,699 |
| Balance at end of year: | | |
| Preferred shares, Series A | 17,070 | 17,670 |
| Preferred shares, Series B | 20,000 | 20,000 |
| Common shares | 244,870 | 72,225 |
| | $281,940 | $109,895 |

| | | |
|---|---|---|
| **Retained Earnings:** | | |
| Balance at beginning of year | $ 8,655 | $ 20,971 |
| Net income (loss) | 7,527 | (6,990) |
| Dividends — preferred shares, Series A | (1,557) | (2,052) |
| — preferred shares, Series B | (1,776) | (2,220) |
| — common shares | (4,847) | (1,861) |
| Transfer from appropriations for contingencies | 7,000 | — |
| Expenses related to issues of common shares, net of income taxes | (1,764) | (2) |
| Other | (76) | 809 |
| Balance at end of year | $ 13,162 | $ 8,655 |

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION For the Year Ended October 31

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| **Funds Derived From:** | | |
| Operations: | | |
| Net income (loss) | $ 7,527 | $ (6,990) |
| Items included in net income (loss) not requiring the use of funds: | | |
| Provision for loan losses | 16,109 | 37,881 |
| Depreciation | 4,229 | 3,771 |
| Amortization of other assets | 382 | 400 |
| Deferred income taxes | (472) | (16,073) |
| Total from operations | 27,775 | 18,989 |
| Other items: | | |
| Decrease in: | | |
| Deposits with other banks | 103,020 | 30,033 |
| Cheques and other items in transit, net | — | 45,932 |
| Securities | 19,237 | 2,886 |
| Lease financing | — | 370 |
| Other assets | — | 5,578 |
| Increase in: | | |
| Deposits | 1,991 | 93,741 |
| Liabilities of subsidiaries, other than deposits | 71,759 | — |
| Other liabilities | — | 14,529 |
| Common share issues | 167,824 | — |
| Other | 180 | 499 |
| Total | $391,786 | $212,557 |

| | | |
|---|---|---|
| **Funds Applied To:** | | |
| Loss experience on loans | $ 36,106 | $ 85,370 |
| Other items: | | |
| Increase in: | | |
| Cash and deposits with Bank of Canada | 11,661 | 780 |
| Cheques and other items in transit, net | 10,733 | — |
| Loans, net | 271,613 | 110,003 |
| Lease financing | 3,065 | — |
| Land, buildings and equipment | 8,868 | 3,626 |
| Other assets | 38,360 | — |
| Decrease in: | | |
| Other liabilities | 2,388 | — |
| Dividends, other than stock dividends | 3,359 | 6,133 |
| Retirement of Bank debentures | 3,013 | 6,019 |
| Redemption of preferred shares | 552 | 624 |
| Share issue expenses, net of income taxes | 1,764 | 2 |
| Other | 304 | — |
| Total | $391,786 | $212,557 |

1. Financial restructuring:

On October 29, 1984, the Board of Directors approved a series of transactions which resulted in a financial restructuring of the Bank. One of these transactions, the Asset Sale, was completed on October 31, 1984 and accordingly, the effect was included in the Consolidated Financial Statements of the Bank as at October 31, 1984 and for the year then ended. The remaining transactions were completed during fiscal 1985.

(a) Asset sale:

On October 31, 1984, the Bank completed an arm's length agreement (the "Asset Sale") for the sale by the Bank of a portion of its loan portfolio and other assets to Ormskirk Investments Ltd. ("Ormskirk"). The assets sold were recorded in the accounts of the Bank as at October 30, 1984 at $107,979,000, net of specific provisions for losses, and generally consisted of non-performing and other problem loans secured by real estate. The sale price of these assets was $62,218,000. The loss on the sale of $45,761,000 was charged to appropriations for contingencies as part of loan loss experience for 1984. This incremental loan loss experience resulted in an increase of $9,400,000 in the Bank's provision for loan losses charged to income in 1984.

(b) Shareholders' equity transactions:

(i) On November 21, 1984, by special resolution of the common shareholders, the authorized common share capital of the Bank was changed to consist of an unlimited number of common shares without nominal or par value, issuable for an aggregate consideration not exceeding $500,000,000.

(ii) On November 22, 1984, the Bank completed the issue by private placement to individual and institutional investors of 12,000,000 common shares at a price of $6.00 per share for aggregate gross proceeds of $72,000,000.

(iii) On November 22, 1984 and pursuant to an agreement (the "Merger Agreement") with the Trustees on behalf of BBC Realty Investors Trust (the "Trust") dated October 29, 1984 (as amended on November 22, 1984), the Bank subscribed for 2,445,713 Trust units for $15,286,000 and the Bank issued 2,445,713 common shares to the Trust for $14,674,000. Unitholders of the Trust, other than the Bank, had their Trust units reclassified as Class A Trust units which were redeemed on the basis of one common share of the Bank plus $0.25 for each Trust unit. As a result of these steps the Bank held all of the outstanding units of the Trust.

The net assets of the Trust acquired by the Bank pursuant to the Merger Agreement were as follows:

| | |
|---|---|
| Assets acquired, at fair value | $104,326,000 |
| Liabilities assumed | 86,400,000 |
| | $ 17,926,000 |
| Consideration: | |
| Cost of original investment | $ 2,240,000 |
| Cost of investment acquired in connection with the Merger Agreement | 15,286,000 |
| Expenses | 400,000 |
| | $ 17,926,000 |

(iv) On February 6, 1985 the Bank completed a public offering of 13,525,000 common shares at a price of $6.00 per share for aggregate gross proceeds of $81,150,000.

(c) As a consequence of the strengthening of the Bank through the financial restructuring completed during the current year and following consultation with the Inspector General of Banks, commencing in 1985 the rules for the determination of the provision for future loan losses, to be charged to income and credited to appropriations for contingencies, are being applied using the ratio of loan loss experience to eligible loans for the years 1982 to 1984 similar to the ratio experienced by the Bank in the years prior to 1982. This is accomplished by replacing the actual loan loss experience for the years 1982 through 1984 in the five year average provision formula with amounts representing normalized loan loss experience of 0.40% of eligible loans.

The financial restructuring was a series of interrelated events with numerous ramifications on the Bank's 1985 performance. The precise impact of the financial restructuring, or any of its individual components, on the Bank's operating results is not determinable due to the complexities of the events and the number of alternative actions available to the Bank if the restructuring had not been undertaken. It is, however, clear that the ratio to be applied against year-end eligible loans in determining the provision for future loan losses for fiscal 1985, as discussed in the preceding paragraph, would have been greater had the restructuring not occurred. A reasonable estimate would be that without the restructuring having occurred, the provision for future loan losses included in the Consolidated Statement of Income in 1985 would have been $18 million greater after excluding that part of the restructuring related to the Asset Sale. As such, the financial restructuring caused net income in 1985 to increase by approximately $9 million as a result of the ratio for determining the provision for future losses being reduced.

## 2. Prescribed accounting policies:

The Bank Act and the rules and regulations issued thereunder by the Minister of Finance prescribe the form and content of the Bank's financial statements, as well as most of the accounting policies. The prescribed accounting policies followed by the Bank in determining net income conform in all material respects with generally accepted accounting principles except for the accounting for losses on loans and the deferral of gains and losses on the disposal of fixed maturity debt securities held in the investment account, as required by the above mentioned rules and regulations.

The significant prescribed accounting policies followed by the Bank are summarized below:

(a) Basis of consolidation:

The assets and liabilities and results of operations of the Bank and its subsidiaries are reported in the financial statements on a consolidated basis. The subsidiaries are as follows:

Canadian: Bank of British Columbia Mortgage Corporation
Bank of British Columbia Financial Services Corporation
BBC Investments Ltd.
BBC Realty Investments Limited
BBC Realty Ltd.
WestBank Leasing Limited
REIT Properties Ltd.

Foreign: Bank of British Columbia (International) Limited
British Columbia Financial Corp. (H.K.) Limited

(b) Securities:

Securities held for trading purposes are carried at market value. Realized gains and losses and unrealized valuation adjustments to market are recorded in current income.

Securities held for investment purposes are carried at cost, with the exception of those securities issued or guaranteed by the Government of Canada or the provinces which are carried at cost, adjusted for amortization of premiums and discounts. Any provision for permanent impairment in value of investment securities is recognized through a charge to current income.

Gains and losses resulting from disposals of fixed maturity debt securities held in the investment account, other than treasury bills, are deferred and amortized to income over five years on the straight-line basis. Gains and losses resulting from disposals of other securities, including treasury bills, held in the investment account are recorded in current income.

The income effects of the amortization of premiums and discounts, the gains and losses on the disposal of securities and the adjustments to the valuations of both investment and trading account securities are recorded in Income from Securities in the Consolidated Statement of Income.

(c) Loans:
Loans are recorded at the principal amount less unearned income, where applicable, and specific and general provisions for losses.

Interest income is recorded on the accrual basis until such time as a loan is classified as non-accrual. Loans are placed on a non-accrual basis whenever there is, in the opinion of management, reasonable doubt as to the ultimate collectibility of some portion of principal or interest or when interest on a loan is due and has not been collected for a period of 90 days, unless senior credit management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest. The amount of this overdue interest is charged against current year's income. Interest income on non-accrual loans is recorded on a cash basis.

(d) Direct finance leases:
Direct finance leases are included in Other Loans in the Consolidated Statement of Assets and Liabilities. The gross lease receivable and the unearned lease income are recorded at the time a lease transaction is executed. The unearned lease income is taken into income over the lease term in amounts directly related to the balance of the net investment in the lease.

(e) Loan losses:
Actual loan loss experience for the year, which consists of net changes in specific and general provisions for losses less recoveries on loans previously written off, is charged directly to appropriations for contingencies. A provision for future loan losses is charged to income and credited to appropriations for contingencies annually. The amount of this provision is determined by calculating the ratio of the last five years of loan loss experience to the last five years of eligible loans and applying this ratio to the outstanding eligible loans at the end of the current year. Commencing in the current year the ratio applied to the outstanding eligible loans at the end of the year was determined as outlined in Note 1(c).

(f) Appropriations for contingencies:
Appropriations for contingencies consists of two elements — tax-allowable and tax-paid. The tax-allowable portion consists of provisions for loan losses charged to income plus discretionary transfers from retained earnings less the unconsolidated Bank actual loan loss experience. Transfers to tax-allowable appropriations for contingencies, including transfers from retained earnings, are made on a tax-deductible basis. The limit on the tax-allowable appropriations is known as Prescribed Aggregate Reserve, and is calculated by applying a percentage, determined by regulation, to eligible assets net of specific and general provisions for losses relating to such assets (1½% of the first $2 billion and 1% of the excess thereof).

The tax-paid portion of appropriations for contingencies reflects the net of actual loan loss experience and provisions for loan losses as they relate to consolidated subsidiaries, and discretionary transfers to or from retained earnings on which taxes have been provided.

(g) Depreciation:
Depreciation is provided for on the straight-line basis over the estimated useful life of the asset. Gains and losses on disposal of fixed assets are reported in the Consolidated Statement of Income.

(h) Translation of foreign currencies:
Assets and liabilities in foreign currencies are translated into Canadian dollars at the prevailing year-end rates; revenues and expenses are translated at prevailing month-end rates. Realized and unrealized gains and losses from transactions in and translations of foreign currencies are reported in Other Income in the Consolidated Statement of Income, except for unrealized gains and losses on investments in foreign subsidiaries which are credited or charged to retained earnings net of income taxes.

## 3. Securities:

*(in thousands of dollars)*

| | Maturities | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Within 1 year | 1 to 3 years | 3 to 5 years | 5 to 10 years | Over 10 years | No specific maturity | **1985** | 1984 |
| **Investment Account Securities:** | | | | | | | | |
| Securities issued or guaranteed by: | | | | | | | | |
| Canada | $130,941 | $ — | $ — | $19,961 | $1,025 | $ — | **$151,927** | $138,095 |
| Provinces | — | 199 | — | 99 | 696 | — | **994** | 1,603 |
| Other securities: | | | | | | | | |
| Debt securities: | | | | | | | | |
| Income debentures | 1,292 | 948 | — | — | — | — | **2,240** | 3,022 |
| Small business development bonds | — | 6,790 | — | — | — | — | **6,790** | 27,591 |
| Other Canadian issuers | — | 3,000 | — | — | — | — | **3,000** | 3,000 |
| Issuers other than Canadian | — | 64 | — | — | — | — | **64** | 260 |
| Equity securities: | | | | | | | | |
| Term preferred shares | 4,316 | 14,648 | 8,529 | 19,117 | 2,450 | — | **49,060** | 58,079 |
| Other Canadian issuers | — | — | — | — | — | 5,162 | **5,162** | 7,425 |
| Total investment account securities | $136,549 | $25,649 | $8,529 | $39,177 | $4,171 | $5,162 | **219,237** | 239,075 |
| **Trading Account Securities:** | | | | | | | | |
| Securities issued or guaranteed by: | | | | | | | | |
| Canada | | | | | | | **—** | 182 |
| Provinces | | | | | | | **747** | 74 |
| Other securities | | | | | | | **110** | — |
| Total trading account securities | | | | | | | **857** | 256 |
| Total securities | | | | | | | **$220,094** | $239,331 |

## 4. Loans:

*(in thousands of dollars)*

The Bank has two categories of non-performing loans: non-accrual loans (Note 2(c)) and renegotiated reduced rate loans which are loans where the terms have been modified to provide for a reduction in the interest rate due to the weakened financial condition of the borrower.

| | 1985 | | | 1984 | | |
|---|---|---|---|---|---|---|
| | **Domestic** | **International** | **Total** | Domestic | International | Total |
| Current loans: | | | | | | |
| Banks | $ — | $ 47,667 | $ 47,667 | $ — | $ 63,096 | $ 63,096 |
| Mortgages | 399,195 | — | 399,195 | 270,653 | — | 270,653 |
| Other loans | 1,818,295 | 455,042 | 2,273,337 | 1,658,890 | 446,234 | 2,105,124 |
| Provisions for losses | (4,720) | (8,200)[1] | (12,920) | (2,636) | (5,600)[1] | (8,236) |
| Net current loans | 2,212,770 | 494,509 | 2,707,279 | 1,926,907 | 503,730 | 2,430,637 |
| Non-performing loans: | | | | | | |
| Non-accrual loans | 90,332 | 6,235 | 96,567 | 89,274 | 10,910 | 100,184 |
| Renegotiated reduced rate loans | 1,000 | — | 1,000 | 6,693 | — | 6,693 |
| Provisions for losses | (36,967) | (3,087) | (40,054) | (42,046) | (5,354) | (47,400) |
| Net non-performing loans | 54,365[2] | 3,148 | 57,513 | 53,921[2] | 5,556 | 59,477 |
| Total loans | $2,267,135 | $497,657 | $2,764,792 | $1,980,828 | $509,286 | $2,490,114 |

[1]The Bank maintains a general provision for losses against sovereign risk loans made to certain countries which have encountered difficulty in servicing their debt or have required debt restructuring during the past few years. The general provision at October 31, 1985 amounted to $8,200,000 (1984 — $5,600,000) which represents approximately 7.6% (1984 — 5.5%) of the sovereign risk loans outstanding to these countries which are subject to rescheduling.

[2]Net non-accrual consumer loans amounted to $4,293,000 at October 31, 1985 (1984 — $7,652,000).

## 5. Other loans:

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| Direct finance leases | $ 46,794 | $ 43,729 |
| Consumer loans | 367,599 | 415,361 |
| Loans in currencies other than Canadian | 544,863 | 488,885 |
| Demand and other loans in Canadian currency | 1,352,790 | 1,205,521 |
| | $2,312,046 | $2,153,496 |

## 6. Acceptances, guarantees and letters of credit:

*(in thousands of dollars)*

The Bank issues acceptances and letters of credit, and guarantees the payment of certain liabilities of customers, and has recourse against those customers with respect to any payments made on all of these commitments. Acceptances are reported as a liability and an offsetting asset in the Consolidated Statement of Assets and Liabilities. Guarantees and letters of credit are not reported in the Consolidated Statement of Assets and Liabilities but have been detailed below:

| | **1985** | 1984 |
|---|---|---|
| Guarantees | $ 63,827 | $61,681 |
| Letters of credit | 57,968 | 20,132 |
| | $121,795 | $81,813 |

## 7. Land, buildings and equipment:

*(in thousands of dollars)*

| | Cost | Accumulated Depreciation | Net Book Value 1985 | Net Book Value 1984 |
|---|---|---|---|---|
| Land | $13,185 | $ — | **$13,185** | $13,185 |
| Buildings | 2,961 | 383 | **2,578** | 2,693 |
| Computer equipment | 11,339 | 3,677 | **7,662** | 4,748 |
| Furniture, fixtures and equipment | 12,825 | 7,782 | **5,043** | 3,240 |
| Leasehold improvements | 15,883 | 7,850 | **8,033** | 7,996 |
| | $56,193 | $19,692 | **$36,501** | $31,862 |

## 8. Other assets:

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| Accrued interest receivable | **$ 25,589** | $28,151 |
| Deferred income taxes | **31,641** | 29,690 |
| Real property other than Bank premises | **25,942** | 4,953 |
| Income producing property | **17,651** | — |
| Sundry, including accounts receivable | **5,189** | 4,768 |
| | **$106,012** | $67,562 |

The income producing property and the majority of the real estate other than Bank premises were acquired by the Bank as a result of the merger with the Trust (Note 1(b)(iii)).

## 9. Geographical distribution of assets by location of ultimate risk:

| *(in thousands of dollars)* | **1985** | | 1984 | |
|---|---|---|---|---|
| | **Amount** | **Percent** | Amount | Percent |
| Canada | **$2,799,034** | **86.1%** | $2,636,922 | 86.0% |
| United States | **154,289** | **4.8** | 87,144 | 2.8 |
| Europe | **78,207** | **2.4** | 121,130 | 3.9 |
| Middle East and Africa | **133** | **—** | 145 | — |
| Asia/Pacific: | | | | |
| South Korea | **37,339** | **1.1** | 40,348 | 1.3 |
| Other | **54,483** | **1.7** | 72,371 | 2.4 |
| | **91,822** | **2.8** | 112,719 | 3.7 |
| Latin America and Caribbean: | | | | |
| Brazil | **55,327** | **1.7** | 35,568 | 1.2 |
| Mexico | **61,791** | **1.9** | 61,078 | 2.0 |
| Other | **9,884** | **0.3** | 12,643 | 0.4 |
| | **127,002** | **3.9** | 109,289 | 3.6 |
| Total assets | **$3,250,487** | **100.0%** | $3,067,349 | 100.0% |

The countries noted separately above represent those countries to which more than 1% of the Bank's risk assets are attributable at October 31, 1985. Risk assets for this purpose are defined as deposits with other banks, securities, loans (excluding mortgages) and customers' liability under acceptances. As at October 31, 1985 risk assets totalled $2,632 million (1984 — $2,639 million).

10. Deposits:

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| Deposits by Canada | **$ 50,159** | $ 22,004 |
| Deposits by provinces | **110,130** | 121,994 |
| Deposits by banks | **368,527** | 724,135 |
| Deposits by individuals | **1,352,912** | 1,234,177 |
| Other deposits | **1,012,652** | 790,079 |
| | **$2,894,380** | $2,892,389 |

11. Liabilities of subsidiaries, other than deposits:

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| Bank of British Columbia Financial Services Corporation: | | |
| Guaranteed floating rate notes (30 day Bankers' Acceptance rate plus 0.25%), retractable at the option of the holder in August, 1988 and maturing in August, 1990 | **$60,000** | $ — |
| Guaranteed fixed rate notes bearing interest at rates from 11.25% to 16.375% payable in various amounts to 1989[1] | **11,759** | — |
| | **$71,759** | $ — |

[1]Acquired as a result of the merger with the Trust (Note 1(b)(iii)).

12. Other liabilities:

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| Accrued interest payable | **$27,217** | $32,190 |
| Accounts payable and accrued expenses | **14,578** | 11,993 |
| | **$41,795** | $44,183 |

13. Bank debentures:

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| 7½% sinking fund debentures, maturing November, 1991 | **$ 335** | $ 348 |
| 9¾% debentures, matured September, 1985 | **—** | 3,000 |
| 10¼% debentures, redeemable at the Bank's option until maturity in May, 1989 | **10,000** | 10,000 |
| | **$10,335** | $13,348 |

The debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors.

## 14. Capital stock:

### Authorized:

Preferred shares — 3,000,000 shares without nominal or par value, issuable in series for an aggregate consideration not exceeding $75,000,000.

Common shares — an unlimited number of shares without nominal or par value, issuable for an aggregate consideration not exceeding $500,000,000.

### Outstanding:

| *(in thousands of dollars)* | 1985 | | 1984 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount** | Number of shares | Amount |
| Preferred shares, Series A: | | | | |
| At beginning of year | **706,800** | **$ 17,670** | 733,900 | $ 18,348 |
| Purchased for cancellation | **(24,000)** | **(600)** | (27,100) | (678) |
| At end of year | **682,800** | **17,070** | 706,800 | 17,670 |
| Preferred shares, Series B: | | | | |
| At beginning and end of year | **800,000** | **20,000** | 800,000 | 20,000 |
| Common shares: | | | | |
| At beginning of year | **5,169,526** | **72,225** | 5,169,526 | 25,848 |
| Issued for cash | **27,970,713** | **167,824** | — | — |
| Stock dividend | **824,085** | **4,821** | — | — |
| Transfer from contributed surplus | — | — | — | 46,377 |
| At end of year | **33,964,324** | **244,870** | 5,169,526 | 72,225 |
| Total capital stock | | **$281,940** | | $109,895 |

On January 10, 1984, with the approval of the Minister of Finance, the authorized common shares of $5.00 par value were changed into common shares without nominal or par value. As a result of this change $46,377,000 of contributed surplus arising from issues of common shares was transferred to capital stock and $256,000 of contributed surplus arising from purchases for cancellation of preferred shares was transferred to retained earnings.

### Share rights and privileges:

Preferred shares, Series A:
These shares are redeemable at the option of the Bank at any time on or after October 30, 1985 at $26.50 per share declining annually thereafter by $0.50 per share to $25.00 per share after October 30, 1988.

The Bank has undertaken to make all reasonable efforts to purchase for cancellation in each calendar quarter 6,000 of the outstanding preferred shares, Series A at prices not exceeding $25.00 per share.

Preferred shares, Series B:
These shares are redeemable at the option of the Bank at any time on or after July 1, 1988 at $26.20 per share declining annually thereafter by $0.30 per share to $25.00 per share after July 1, 1992. These shares are retractable at the option of the holder on June 1, 1995 at $25.00 per share.

The Bank has undertaken to make all reasonable efforts to purchase for cancellation in each calendar quarter at prices not exceeding $25.00 per share the following number of these shares:

(a) during the period commencing July 1, 1988 and ending June 30, 1995, 6,000 preferred shares, Series B; and

(b) commencing July 1, 1995 and thereafter, 0.75% of the number of preferred shares, Series B outstanding on June 30, 1995.

This obligation is cumulative only within each calendar year.

Common shares:
The Bank is presently required to consult with, and receive the consent of, the Inspector General of Banks prior to the payment of a cash dividend on the common shares until such time as the deficit in appropriations for contingencies has been eliminated. This requirement is subject to review by the Inspector General of Banks.

### 15. Income taxes:

*(in thousands of dollars)*

The provision (credit) for income taxes recorded in the Consolidated Statement of Income represents income taxes applicable to the income or loss reported therein.

Income taxes recorded in retained earnings represent the income tax effect related to the tax deductible transfer from retained earnings to appropriations for contingencies, to loan loss experience of subsidiaries, to share issue expenses and to unrealized exchange gains on investments in foreign subsidiaries.

Provision (credit) for income taxes:

| | **1985** | 1984 |
|---|---|---|
| Consolidated Statement of Income: | | |
| Current | **$1,485** | $ 2,846 |
| Deferred | **(472)** | (16,073) |
| | **1,013** | (13,227) |
| Retained earnings: | | |
| Current | **—** | (2) |
| Deferred | **(1,479)** | (119) |
| | **(1,479)** | (121) |
| | **$ (466)** | $(13,348) |

The Bank's provision (credit) for income taxes differs from the amount calculated by applying its combined federal and provincial statutory tax rate to net income before provision for income taxes mainly because of tax-exempt income from certain securities including term preferred shares, income debentures and small business development bonds.

| | **1985** | | 1984 | |
|---|---|---|---|---|
| | **Amount** | **Percent** | Amount | Percent |
| Net income (loss) before provision for income taxes | **$8,540** | | $ (20,217) | |
| Taxes thereon at combined federal and provincial statutory tax rate | **$4,364** | **51.1%** | $ (10,210) | (50.5)% |
| Combined tax rate applied to: | | | | |
| Income from foreign subsidiaries not subject to Canadian tax | **(566)** | **(6.6)** | (699) | (3.5) |
| Dividends from taxable Canadian corporations | **(2,012)** | **(23.6)** | (2,311) | (11.4) |
| Interest on income debentures and small business development bonds | **(486)** | **(5.7)** | (1,173) | (5.8) |
| Other — net | **(345)** | **(4.0)** | 1,115 | 5.5 |
| Non-Canadian taxes payable by foreign subsidiaries | **58** | **0.7** | 51 | 0.3 |
| Provision (credit) for income taxes at effective income tax rate | **$1,013** | **11.9%** | $ (13,227) | (65.4)% |

### 16. Net income (loss) per common share:

Net income (loss) per common share has been calculated on the daily weighted average number of common shares outstanding after giving retroactive effect to stock dividends (1985 — 29,554,940; 1984 — 5,298,075) and after giving effect to the preferred share dividend obligations for the year.

### 17. Long-term commitments for leases:

Rental expense for premises for the year ended October 31, 1985 was $6,784,000 (1984 — $6,684,000). Minimum future rental commitments for premises under long-term leases are shown below. The Bank has no lease commitments which extend beyond 2006.

*(in thousands of dollars)*

| | |
|---|---|
| 1986 | $ 5,733 |
| 1987 | 7,140 |
| 1988 | 6,695 |
| 1989 | 5,782 |
| 1990 | 5,016 |
| 1991 and thereafter | 50,850 |

## 18. Pension plan:

The Bank has an employee pension plan which is available to all employees at age 25, after three months service, on a contributory or non-contributory basis. The Bank incurred no cost in respect of current service charged to income for the year ended October 31, 1985 (1984 — $326,000).

An actuarial valuation of the pension fund is performed every three years in accordance with statutory requirements; however, the Bank's policy requires an interim actuarial review to be carried out every year. As at May 1, 1985, the date of the latest actuarial valuation, the actuarial value of the assets of the plan exceeded the actuarial liabilities.

## 19. Legal actions:

The Bank is subject to a number of legal actions in the normal course of its business. While the outcome of some of these actions is not determinable, based on information available General Counsel of the Bank is of the opinion that none of these actions is likely, individually or in the aggregate, to result in ultimate material liability to the Bank.

## 20. Affiliated companies:

| | | Voting Shares Owned by Bank of British Columbia | |
|---|---|---|---|
| Name | Head Office Address | Book Value | Percent |
| Bank of British Columbia (International) Limited | P.O. Box 2198<br>Transnational House<br>Grand Cayman<br>Cayman Islands<br>British West Indies | $6,837,500[1] | 100% |
| Bank of British Columbia Mortgage Corporation | 1235-555 Burrard Street<br>Vancouver, B.C.<br>Canada | $22,000,000[1] | 100% |
| BBC Investments Ltd. | 1235-555 Burrard Street<br>Vancouver, B.C.<br>Canada | $50,000[1] | 100% |
| BBC Realty Investments Limited | 1235-555 Burrard Street<br>Vancouver, B.C.<br>Canada | $13,367[2] | 100% |
| BBC Realty Ltd. | 1235-555 Burrard Street<br>Vancouver, B.C.<br>Canada | $10,000[1] | 100% |
| Bank of British Columbia Financial Services Corporation | 1235-555 Burrard Street<br>Vancouver, B.C.<br>Canada | $208,555[2] | 100% |
| British Columbia Financial Corp. (H.K.) Limited | 3407 Gloucester Tower<br>The Landmark<br>11 Pedder Street<br>Hong Kong | $6,837,500[1] | 100% |
| REIT Properties Ltd. | 1235-555 Burrard Street<br>Vancouver, B.C.<br>Canada | $10[1] | 100% |
| WestBank Leasing Limited | 1235-555 Burrard Street<br>Vancouver, B.C.<br>Canada | $10[1] | 100% |

The above list identifies those corporations in which the Bank owns more than 10% of the voting shares.

[1]Represents the cost of the Bank's investment which excludes the Bank's share of net income.

[2]Represents the cost of the Bank's investment plus the Bank's share of net income up to the date when the Bank's interest was increased to 100%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended October 31, 1985

21. Condensed financial statements of certain subsidiaries in accordance with Section 215(3)(e) of the Bank Act

### WESTBANK LEASING LIMITED

**Statement of Assets and Liabilities** As at October 31

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| **Assets:** | | |
| Investment in leases, less unearned income | **$46,794** | $43,729 |
| Other assets | **2,004** | 235 |
| | **$48,798** | $43,964 |
| **Liabilities:** | | |
| Due to Bank of British Columbia | **$39,828** | $36,497 |
| Other liabilities | **4,086** | 3,299 |
| | **43,914** | 39,796 |
| **Shareholder's Equity:** | | |
| Capital stock[1] | **3,594** | 3,594 |
| Retained earnings | **1,290** | 574 |
| | **4,884** | 4,168 |
| | **$48,798** | $43,964 |

**Statement of Income and Retained Earnings** For the Year Ended October 31

| *(in thousands of dollars)* | **1985** | 1984 |
|---|---|---|
| **Income:** | | |
| Leases | **$ 4,787** | $ 5,624 |
| Other | **294** | 198 |
| | **5,081** | 5,822 |
| **Expenses:** | | |
| Interest | **3,450** | 3,854 |
| General and administrative | **397** | 316 |
| | **3,847** | 4,170 |
| Provision for losses | **(238)** | 909 |
| Total expenses | **3,609** | 5,079 |
| Income before income taxes | **1,472** | 743 |
| Income taxes — deferred | **756** | 373 |
| Net income | **716** | 370 |
| Retained earnings at beginning of year | **574** | 2,704 |
| | **1,290** | 3,074 |
| Dividend — common share | **—** | (2,500) |
| Retained earnings at end of year | **$ 1,290** | $ 574 |

[1]Bank of British Columbia owns the entire capital stock of WestBank Leasing Limited which is carried on the books of the Bank at original cost of $3,594,010 (preference shares $3,594,000, common share $10).

21. (Continued):

BANK OF BRITISH COLUMBIA MORTGAGE CORPORATION

## Statement of Assets and Liabilities As at December 31

| *(in thousands of dollars)* | **1984** | 1983 |
|---|---|---|
| **Assets:** | | |
| Cash and term deposits | $ 52,000 | $ 17,558 |
| Other investments | 4,352 | 833 |
| Mortgages | 240,178 | 203,177 |
| Other assets | 4,047 | 3,026 |
| | $300,577 | $224,594 |
| **Liabilities:** | | |
| Due to Bank of British Columbia | $ 8,802 | $ 441 |
| Accrued interest | 5,050 | 4,067 |
| Term promissory notes | 236,603 | 183,896 |
| Bankers' acceptances | 35,221 | 23,701 |
| Other liabilities | 474 | 791 |
| | 286,150 | 212,896 |
| **Shareholder's Equity:** | | |
| Capital stock[1] | 14,003 | 11,003 |
| Retained earnings | 424 | 695 |
| | 14,427 | 11,698 |
| | $300,577 | $224,594 |

## Statement of Income and Retained Earnings For the Year Ended December 31

| *(in thousands of dollars)* | **1984** | 1983 |
|---|---|---|
| **Income:** | | |
| Mortgages | $ 27,698 | $ 22,314 |
| Other | 2,411 | 1,351 |
| | 30,109 | 23,665 |
| **Expenses:** | | |
| Interest | 26,563 | 18,471 |
| General and administrative | 4,094 | 4,343 |
| | 30,657 | 22,814 |
| Provision for losses | 60 | 100 |
| Total expenses | 30,717 | 22,914 |
| Income (loss) before income taxes | (608) | 751 |
| Income taxes (credit) — deferred | (337) | 390 |
| Net income (loss) | (271) | 361 |
| Retained earnings at beginning of year | 695 | 334 |
| Retained earnings at end of year | $ 424 | $ 695 |

[1]Bank of British Columbia owns the entire capital stock of Bank of British Columbia Mortgage Corporation which was carried on the books of the Bank at December 31, 1984 at original cost of $14,002,500 (preference shares $2,500, common shares $14,000,000).

## STATEMENTS OF A FOREIGN SUBSIDIARY

### BRITISH COLUMBIA FINANCIAL CORP. (H.K.) LIMITED

**CONDENSED STATEMENT OF ASSETS AND LIABILITIES** As at September 30

| *(in thousands of U.S. dollars)* | **1985** | 1984 |
|---|---|---|
| **Assets:** | | |
| Cash and due from banks | **$ 219** | $ 3,138 |
| Loans | **59,827** | 57,800 |
| Other assets | **1,269** | 1,982 |
| | **$61,315** | $62,920 |
| **Liabilities:** | | |
| Deposits | **$12,803** | $17,786 |
| Due to Bank of British Columbia | **39,511** | 36,421 |
| Other liabilities | **1,000** | 904 |
| | **53,314** | 55,111 |
| **Shareholder's Equity:** | | |
| Capital stock[1] | **5,000** | 5,000 |
| Retained earnings | **3,001** | 2,809 |
| | **8,001** | 7,809 |
| | **$61,315** | $62,920 |

**CONDENSED STATEMENT OF INCOME AND RETAINED EARNINGS** For the year ended September 30

| *(in thousands of U.S. dollars)* | **1985** | 1984 |
|---|---|---|
| **Income:** | | |
| Interest | **$ 6,331** | $ 7,591 |
| Other | **86** | 115 |
| | **6,417** | 7,706 |
| **Expenses:** | | |
| Interest | **5,194** | 6,469 |
| General and administrative | **740** | 724 |
| Provision for loan losses | **248** | 300 |
| | **6,182** | 7,493 |
| Income before income taxes | **235** | 213 |
| Income taxes | **43** | 43 |
| Net income | **192** | 170 |
| Retained earnings at beginning of year | **2,809** | 2,639 |
| Retained earnings at end of year | **$ 3,001** | $ 2,809 |

[1]The Bank of British Columbia owns the entire capital stock of British Columbia Financial Corp. (H.K.) Limited which was carried on the books of the Bank at September 30, 1985 at $6,871,000 (Canadian).

**Auditors' Report to the Shareholders of Bank of British Columbia**

We have examined the financial statements of British Columbia Financial Corp. (H.K.) Limited for the year ended September 30, 1985 and have reported thereon to the Company's shareholder under date of November 8, 1985. The accompanying condensed statements of assets and liabilities and income and retained earnings have been prepared from the aforementioned financial statements.

In our opinion, the accompanying condensed statements of assets and liabilities and income and retained earnings fairly summarize the financial position of the Company as at September 30, 1985 and the results of its operations for the year then ended.

Vancouver, Canada
November 8, 1985

Peat, Marwick, Mitchell & Co.
Chartered Accountants

## CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES As at October 31

| *(in thousands of dollars)* | **1985** | 1984 | 1983 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash Resources: | | | |
| Cash and deposits with Bank of Canada | **$ 69,061** | $ 57,400 | $ 56,620 |
| Deposits with other banks | **43,060** | 146,080 | 176,113 |
| Cheques and other items in transit, net | **3,067** | — | 38,266 |
| | **115,188** | 203,480 | 270,999 |
| Securities: | | | |
| Issued or guaranteed by Canada | **151,927** | 138,277 | 112,489 |
| Issued or guaranteed by provinces and municipal or school corporations | **1,741** | 1,677 | 993 |
| Other securities | **66,426** | 99,377 | 128,735 |
| | **220,094** | 239,331 | 242,217 |
| Loans: | | | |
| Day, call and short loans to investment dealers and brokers, secured | **—** | — | 10,000 |
| Loans to banks | **48,583** | 64,641 | 51,106 |
| Mortgage loans | **404,163** | 271,977 | 225,017 |
| Other loans | **2,312,046** | 2,153,496 | 2,094,358 |
| | **2,764,792** | 2,490,114 | 2,380,481 |
| Other: | | | |
| Customers' liability under acceptances | **7,900** | 35,000 | 74,600 |
| Land, buildings and equipment | **36,501** | 31,862 | 32,007 |
| Other assets | **106,012** | 67,562 | 57,467 |
| | **150,413** | 134,424 | 164,074 |
| | **$3,250,487** | $3,067,349 | $3,057,771 |
| **LIABILITIES** | | | |
| Deposits: | | | |
| Payable on demand | **$ 183,517** | $ 138,360 | $ 140,016 |
| Payable after notice | **831,787** | 785,837 | 944,794 |
| Payable on a fixed date | **1,879,076** | 1,968,192 | 1,713,838 |
| | **2,894,380** | 2,892,389 | 2,798,648 |
| Other: | | | |
| Cheques and other items in transit, net | **—** | 7,666 | — |
| Acceptances | **7,900** | 35,000 | 74,600 |
| Liabilities of subsidiaries, other than deposits | **71,759** | — | — |
| Other liabilities | **41,795** | 44,183 | 29,654 |
| Minority interest in subsidiaries | **—** | — | — |
| | **121,454** | 86,849 | 104,254 |
| Subordinated Debt: | | | |
| Bank debentures | **10,335** | 13,348 | 19,367 |
| **CAPITAL AND RESERVES** | | | |
| Appropriations for contingencies | **(70,784)** | (43,787) | 3,702 |
| Shareholders' equity: | | | |
| Capital stock — preferred shares | **37,070** | 37,670 | 38,348 |
| — common shares | **244,870** | 72,225 | 25,848 |
| Contributed surplus | **—** | — | 46,633 |
| Retained earnings | **13,162** | 8,655 | 20,971 |
| | **224,318** | 74,763 | 135,502 |
| | **$3,250,487** | $3,067,349 | $3,057,771 |

| 1982 | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| $ 42,234 | $ 37,682 | $ 61,797 | $ 27,901 | $ 49,986 | $ 8,078 |
| 234,697 | 199,439 | 193,501 | 150,658 | 163,979 | 81,214 |
| — | 14,003 | 8,976 | 76,381 | 11,748 | 71,104 |
| 276,931 | 251,124 | 264,274 | 254,940 | 225,713 | 160,396 |
| 92,982 | 122,156 | 128,004 | 104,699 | 71,638 | 66,070 |
| 1,069 | 1,119 | 1,059 | 860 | 1,119 | 17,082 |
| 187,794 | 158,770 | 104,095 | 97,668 | 31,727 | 37,180 |
| 281,845 | 282,045 | 233,158 | 203,227 | 104,484 | 120,332 |
| 53,998 | 39,000 | 28,120 | 6,079 | 11,500 | 5,800 |
| 48,073 | 17,520 | 25,929 | 32,518 | 16,680 | — |
| 179,402 | 164,637 | 135,361 | 120,823 | 103,849 | 92,193 |
| 2,303,468 | 2,115,181 | 1,557,587 | 1,307,618 | 1,010,789 | 769,796 |
| 2,584,941 | 2,336,338 | 1,746,997 | 1,467,038 | 1,142,818 | 867,789 |
| 29,000 | 12,500 | 26,700 | 16,500 | 9,000 | 7,000 |
| 28,788 | 23,563 | 16,223 | 12,118 | 10,438 | 7,470 |
| 52,551 | 40,345 | 23,916 | 21,902 | 11,771 | 6,289 |
| 110,339 | 76,408 | 66,839 | 50,520 | 31,209 | 20,759 |
| $3,254,056 | $2,945,915 | $2,311,268 | $1,975,725 | $1,504,224 | $1,169,276 |
| $ 125,922 | $ 160,272 | $ 166,690 | $ 120,398 | $ 132,852 | $ 108,202 |
| 889,202 | 818,472 | 719,179 | 466,172 | 304,874 | 241,242 |
| 2,018,168 | 1,753,455 | 1,254,137 | 1,266,906 | 979,864 | 753,892 |
| 3,033,292 | 2,732,199 | 2,140,006 | 1,853,476 | 1,417,590 | 1,103,336 |
| 3,309 | — | — | — | — | — |
| 29,000 | 12,500 | 26,700 | 16,500 | 9,000 | 7,000 |
| — | — | — | — | — | — |
| 52,858 | 71,958 | 38,352 | 26,655 | 16,626 | 11,965 |
| — | — | — | — | 87 | 90 |
| 85,167 | 84,458 | 65,052 | 43,155 | 25,713 | 19,055 |
| 19,378 | 19,402 | 19,420 | 19,440 | 9,451 | 8,000 |
| 15,324 | 21,970 | 13,789 | 12,236 | 8,760 | 6,946 |
| 18,928 | 19,183 | 19,868 | — | — | — |
| 20,848 | 17,869 | 15,316 | 15,316 | 14,788 | 11,920 |
| 34,564 | 25,235 | 19,401 | 19,401 | 18,343 | 13,114 |
| 26,555 | 25,599 | 18,416 | 12,701 | 9,579 | 6,905 |
| 116,219 | 109,856 | 86,790 | 59,654 | 51,470 | 38,885 |
| $3,254,056 | $2,945,915 | $2,311,268 | $1,975,725 | $1,504,224 | $1,169,276 |

## CONSOLIDATED STATEMENT OF INCOME Year ended October 31

| *(in thousands of dollars)* | **1985** | 1984 | 1983 |
|---|---|---|---|
| **Interest and Dividend Income:** | | | |
| Loans | **$310,215** | $301,209 | $304,138 |
| Lease financing | **4,787** | 5,624 | 6,802 |
| Securities | **18,555** | 18,800 | 25,399 |
| Deposits with banks | **4,073** | 11,859 | 15,327 |
| Total interest and dividend income | **337,630** | 337,492 | 351,666 |
| **Interest Expense:** | | | |
| Deposits | **245,568** | 254,757 | 245,951 |
| Bank debentures | **1,295** | 1,482 | 1,885 |
| Other | **3,164** | 25 | 14 |
| Total interest expense | **250,027** | 256,264 | 247,850 |
| Net interest income | **87,603** | 81,228 | 103,816 |
| Provision for loan losses | **16,109** | 37,881 | 22,703 |
| Net interest income after loan loss provision | **71,494** | 43,347 | 81,113 |
| Other income | **26,713** | 17,770 | 15,813 |
| Net interest and other income | **98,207** | 61,117 | 96,926 |
| **Non-interest Expenses:** | | | |
| Salaries | **49,964** | 47,591 | 50,515 |
| Pension and other staff benefits | **2,336** | 2,726 | 3,648 |
| Premises and equipment expenses, including depreciation | **16,382** | 14,453 | 13,091 |
| Other | **20,985** | 16,564 | 16,946 |
| Total non-interest expenses | **89,667** | 81,334 | 84,200 |
| Net income (loss) before provision for income taxes | **8,540** | (20,217) | 12,726 |
| Provision (credit) for income taxes | **1,013** | (13,227) | 600 |
| Net income (loss) before minority interest in subsidiaries | **7,527** | (6,990) | 12,126 |
| Minority interest in subsidiaries | — | — | — |
| Net income (loss) | **$ 7,527** | $ (6,990) | $ 12,126 |
| Net income (loss) applicable to common shares | **$ 4,187** | $ (10,407) | $ 9,596 |
| Weighted average number of common shares outstanding* | **29,554,940** | 5,298,075 | 4,466,950 |
| **Share Information:** | | | |
| Net income (loss) per common share*[1] | **$ 0.14** | $ (1.96) | $ 2.15 |
| Dividends per common share | **0.15** | 0.36 | 0.72 |
| Common share price[2] High | **6.88** | 16.50 | 21.50 |
| Low | **4.30** | 6.38 | 14.50 |
| Close | **4.90** | 6.75 | 14.50 |
| Book value per common share*[3] | **5.51** | 7.00 | 18.34 |
| Dividend yield[4] | **2.7%** | 3.1% | 4.0% |
| **Other Information:** | | | |
| Return on assets[5] | **.24%** | (.22)% | .39% |
| Return on common equity[6] | **2.4%** | (11.7)% | 10.0% |
| Deposit to capital ratio[7] | **12.9:1** | 38.7:1 | 20.7:1 |
| Number of common shareholders[8] | **14,483** | 9,293 | 9,596 |
| Number of branches | **61** | 51 | 52 |

*After giving retroactive effect to the 1985 stock dividend.

Notes:

[1]Net income (loss) less preferred dividend obligations divided by weighted average equivalent of fully paid common shares outstanding.

[2]High and low of prices traded on the Toronto Stock Exchange during the fiscal year and the closing price on the last day of trading in October.

[3]Total Capital and Reserves less preferred shares issued divided by the number of fully paid common shares outstanding at fiscal year end.

| 1982 | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| $416,988 | $372,812 | $240,012 | $181,108 | $113,913 | $ 86,435 |
| 3,963 | 1,769 | 208 | — | — | — |
| 34,446 | 30,356 | 20,891 | 14,084 | 7,683 | 6,542 |
| 32,355 | 31,635 | 19,863 | 12,180 | 6,997 | 3,381 |
| 487,752 | 436,572 | 280,974 | 207,372 | 128,593 | 96,358 |
| | | | | | |
| 400,609 | 350,524 | 216,999 | 155,741 | 84,264 | 62,035 |
| 1,887 | 1,888 | 1,894 | 1,340 | 900 | 671 |
| 35 | 23 | 10 | 4 | 1 | 1 |
| 402,531 | 352,435 | 218,903 | 157,085 | 85,165 | 62,707 |
| 85,221 | 84,137 | 62,071 | 50,287 | 43,428 | 33,651 |
| 15,347 | 9,515 | 7,225 | 6,035 | 4,378 | 3,191 |
| 69,874 | 74,622 | 54,846 | 44,252 | 39,050 | 30,460 |
| 16,626 | 17,123 | 13,251 | 12,792 | 9,083 | 6,340 |
| 86,500 | 91,745 | 68,097 | 57,044 | 48,133 | 36,800 |
| | | | | | |
| 47,696 | 39,285 | 32,260 | 26,795 | 20,687 | 15,042 |
| 3,688 | 3,179 | 2,607 | 2,121 | 1,852 | 1,195 |
| 11,441 | 10,157 | 7,629 | 6,380 | 4,703 | 3,502 |
| 19,641 | 16,166 | 14,749 | 13,076 | 11,892 | 9,180 |
| 82,466 | 68,787 | 57,245 | 48,372 | 39,134 | 28,919 |
| 4,034 | 22,958 | 10,852 | 8,672 | 8,999 | 7,881 |
| (7,700) | 5,632 | 1,524 | 2,057 | 3,676 | 3,361 |
| 11,734 | 17,326 | 9,328 | 6,615 | 5,323 | 4,520 |
| — | — | — | 9 | 9 | 8 |
| $ 11,734 | $ 17,326 | $ 9,328 | $ 6,606 | $ 5,314 | $ 4,512 |
| $ 9,993 | $ 15,550 | $ 8,104 | $ 6,606 | $ 5,314 | $ 4,512 |
| | | | | | |
| 4,082,753 | 3,557,386 | 3,139,501 | 3,104,768 | 2,639,064 | 2,067,652 |
| | | | | | |
| $ 2.45 | $ 4.37 | $ 2.58 | $ 2.13 | $ 2.01 | $ 2.18 |
| 0.72 | 0.64 | 0.56 | 0.50 | 0.44 | 0.40 |
| 25.25 | 25.00 | 24.00 | 19.44 | 19.75 | 15.32 |
| 11.00 | 19.63 | 13.63 | 14.00 | 13.50 | 10.44 |
| 16.00 | 22.06 | 19.00 | 14.25 | 19.00 | 14.44 |
| 22.77 | 24.76 | 21.32 | 19.00 | 17.13 | 16.06 |
| 4.0% | 2.9% | 3.0% | 3.0% | 2.6% | 3.1% |
| | | | | | |
| .37% | .66% | .44% | .37% | .41% | .45% |
| 10.1% | 19.4% | 12.9% | 12.1% | 12.4% | 14.2% |
| 26.1:1 | 24.9:1 | 24.7:1 | 31.1:1 | 27.5:1 | 28.4:1 |
| 9,757 | 9,616 | 9,588 | 9,837 | 10,077 | 10,004 |
| 51 | 51 | 47 | 45 | 43 | 35 |

[4]Dividends per common share divided by the average of the high and low common share price.
[5]Net income (loss) divided by average assets for the fiscal year.
[6]Net income (loss) less preferred dividend obligations divided by average Capital and Reserves less preferred shares issued.
[7]Total deposits to total Capital and Reserves at fiscal year end.
[8]Bank of British Columbia common shareholders at fiscal year end.

## CONSOLIDATED STATEMENT OF APPROPRIATIONS FOR CONTINGENCIES

Year ended October 31

| *(in thousands of dollars)* | **1985** | 1984 | 1983 |
|---|---|---|---|
| Balance at beginning of year | **$ (43,787)** | $ 3,702 | $15,324 |
| Provision for loan losses included in the Consolidated Statement of Income | **16,109** | 37,881 | 22,703 |
| Loss experience on loans | **(36,106)** | (85,370) | (51,325) |
| Transfer from (to) retained earnings | **(7,000)** | — | 17,000 |
| Balance at end of year | **$ (70,784)** | $ (43,787) | $ 3,702 |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended October 31

| | **1985** | 1984 | 1983 |
|---|---|---|---|
| **Capital Stock** | | | |
| Balance at beginning of year: | | | |
| Preferred shares | **$ 37,670** | $ 38,348 | $18,928 |
| Common shares | **72,225** | 25,848 | 20,848 |
| Issued during the year: | | | |
| Preferred shares | **—** | — | 20,000 |
| Common shares — for cash | **167,824** | — | 5,000 |
| — stock dividend | **4,821** | — | — |
| Transfer from contributed surplus — common shares | **—** | 46,377 | — |
| Purchased for cancellation — preferred shares | **(600)** | (678) | (580) |
| Balance at end of year | **$281,940** | $109,895 | $64,196 |
| **Contributed Surplus** | | | |
| Balance at beginning of year | **—** | $ 46,633 | $34,564 |
| Additions from common shares issued | **—** | — | 12,000 |
| Gain on preferred shares purchased for cancellation | **—** | — | 69 |
| Transfer to capital stock | **—** | (46,377) | — |
| Transfer to retained earnings | **—** | (256) | — |
| Balance at end of year | **—** | $ — | $46,633 |
| **Retained Earnings** | | | |
| Balance at beginning of year | **$ 8,655** | $ 20,971 | $26,555 |
| Prior period adjustment | **—** | — | — |
| Net income (loss) | **7,527** | (6,990) | 12,126 |
| Dividends | | | |
| — preferred shares, Series A | **(1,557)** | (2,052) | (1,702) |
| — preferred shares, Series B | **(1,776)** | (2,220) | (541) |
| — common shares | **(4,847)** | (1,861) | (3,182) |
| Expenses related to issues of preferred and common shares, net of income taxes | **(1,764)** | (2) | (698) |
| Transfer from (to) appropriations for contingencies | **7,000** | — | (17,000) |
| Income taxes related to the above transfer | **—** | — | 4,999 |
| Other | **(76)** | 809 | 414 |
| Balance at end of year | **$ 13,162** | $ 8,655 | $20,971 |

| 1982 | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| $21,970 | $13,789 | $12,236 | $ 8,760 | $ 6,946 | $ 5,234 |
| 15,347 | 9,515 | 7,225 | 6,035 | 4,378 | 3,191 |
| (27,993) | (9,038) | (6,692) | (6,210) | (5,116) | (3,331) |
| 6,000 | 7,704 | 1,020 | 3,651 | 2,552 | 1,852 |
| $15,324 | $21,970 | $13,789 | $12,236 | $ 8,760 | $ 6,946 |
| | | | | | |
| $19,183 | $19,868 | $ — | $ — | $ — | $ — |
| 17,869 | 15,316 | 15,316 | 14,788 | 11,920 | 9,464 |
| — | — | 20,000 | — | — | — |
| 2,979 | 2,553 | — | 528 | 2,868 | 2,456 |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| (255) | (685) | (132) | — | — | — |
| $39,776 | $37,052 | $35,184 | $15,316 | $14,788 | $11,920 |
| | | | | | |
| $25,235 | $19,401 | $19,401 | $18,343 | $13,114 | $10,198 |
| 9,232 | 5,744 | — | 1,058 | 5,229 | 2,916 |
| 97 | 90 | — | — | — | — |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| $34,564 | $25,235 | $19,401 | $19,401 | $18,343 | $13,114 |
| | | | | | |
| $25,599 | $18,416 | $12,701 | $ 9,579 | $ 6,905 | $ 4,093 |
| — | — | — | — | — | 52 |
| 11,734 | 17,326 | 9,328 | 6,606 | 5,314 | 4,512 |
| (1,744) | (1,784) | (995) | — | — | — |
| — | — | — | — | — | — |
| (2,895) | (2,240) | (1,715) | (1,515) | (1,157) | (810) |
| (139) | (132) | (342) | — | (211) | (197) |
| (6,000) | (7,704) | (1,020) | (3,651) | (2,552) | (1,852) |
| — | 2,450 | 527 | 1,831 | 1,284 | 933 |
| — | (733) | (68) | (149) | (4) | 174 |
| $26,555 | $25,599 | $18,416 | $12,701 | $ 9,579 | $ 6,905 |

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

| *(in thousands of dollars)* | Year Ended October 31 **1985** | 1984 |
|---|---|---|
| **Funds Derived From:** | | |
| Operations: | | |
| Net income (loss) | $ 7,527 | $ (6,990) |
| Items included in net income (loss) not requiring the use of funds: | | |
| Provision for loan losses | 16,109 | 37,881 |
| Depreciation | 4,229 | 3,771 |
| Amortization of other assets | 382 | 400 |
| Deferred income taxes | (472) | (16,073) |
| Total from operations | 27,775 | 18,989 |
| Other items: | | |
| Decrease in: | | |
| Cash and deposits with Bank of Canada | — | — |
| Deposits with other banks | 103,020 | 30,033 |
| Cheques and other items in transit, net | — | 45,932 |
| Securities | 19,237 | 2,886 |
| Loans, net | — | — |
| Lease financing | — | 370 |
| Other assets | — | 5,578 |
| Increase in: | | |
| Deposits | 1,991 | 93,741 |
| Liabilities of subsidiaries, other than deposits | 71,759 | — |
| Other liabilities | — | 14,529 |
| Issue of Bank debentures | — | — |
| Capital stock issues | 167,824 | — |
| Tax credit related to appropriations | — | — |
| Other | 180 | 499 |
| Total | $391,786 | $212,557 |
| **Funds Applied To:** | | |
| Loss experience on loans | $ 36,106 | $ 85,370 |
| Other items: | | |
| Increase in: | | |
| Cash and deposits with Bank of Canada | 11,661 | 780 |
| Deposits with other banks | — | — |
| Cheques and other items in transit, net | 10,733 | — |
| Securities | — | — |
| Loans, net | 271,613 | 110,003 |
| Lease financing | 3,065 | — |
| Land, buildings and equipment | 8,868 | 3,626 |
| Other assets | 38,360 | — |
| Decrease in: | | |
| Deposits | — | — |
| Other liabilities | 2,388 | — |
| Dividends, other than stock dividends | 3,359 | 6,133 |
| Retirement of Bank debentures | 3,013 | 6,019 |
| Redemption of preferred shares | 552 | 624 |
| Share issue expenses, net of income taxes | 1,764 | 2 |
| Other | 304 | — |
| Total | $391,786 | $212,557 |

| 1983 | 1982 | 1981 | 1980 | 1979 | 1978 |
|---|---|---|---|---|---|
| $ 12,126 | $ 11,734 | $ 17,326 | $ 9,328 | $ 6,606 | $ 5,314 |
| 22,703 | 15,347 | 9,515 | 7,225 | 6,035 | 4,378 |
| 2,726 | 2,175 | 1,671 | 987 | 1,206 | 967 |
| 481 | 234 | 231 | 85 | 74 | 7 |
| (444) | (8,472) | 5,453 | 1,290 | 1,745 | 1,740 |
| 37,592 | 21,018 | 34,196 | 18,915 | 15,666 | 12,406 |
| — | — | 24,115 | — | 22,085 | — |
| 58,584 | — | — | — | 13,320 | — |
| — | 17,312 | — | 67,404 | — | 59,356 |
| 39,628 | 200 | — | — | — | 15,848 |
| 204,532 | — | — | — | — | — |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| — | 301,093 | 592,192 | 286,530 | 435,886 | 314,254 |
| — | — | — | — | — | — |
| — | — | 28,154 | 10,407 | 8,198 | 2,917 |
| — | — | — | — | 10,000 | 6,000 |
| 37,000 | 12,211 | 8,297 | 20,000 | 1,586 | 8,097 |
| 4,999 | — | 2,450 | 527 | 1,831 | 1,284 |
| 414 | — | — | — | — | — |
| $382,749 | $351,834 | $689,404 | $403,783 | $508,572 | $420,162 |

| 1983 | 1982 | 1981 | 1980 | 1979 | 1978 |
|---|---|---|---|---|---|
| $ 51,325 | $ 27,993 | $ 9,038 | $ 6,692 | $ 6,210 | $ 5,116 |
| 14,386 | 4,552 | — | 33,896 | — | 41,908 |
| — | 35,258 | 5,938 | 42,842 | — | 82,764 |
| 41,575 | — | 5,027 | — | 64,633 | — |
| — | — | 48,887 | 29,931 | 98,743 | — |
| — | 221,702 | 577,654 | 274,522 | 324,220 | 275,029 |
| 72 | 26,901 | 11,687 | 5,438 | — | — |
| 5,945 | 7,400 | 9,011 | 5,092 | 2,887 | 3,934 |
| 4,953 | 3,968 | 16,660 | 2,098 | 10,204 | 5,490 |
| 234,644 | — | — | — | — | — |
| 23,204 | 19,100 | — | — | — | — |
| 5,425 | 4,639 | 4,024 | 2,710 | 1,515 | 1,157 |
| 11 | 24 | 18 | 20 | 11 | 4,549 |
| 511 | 158 | 595 | 132 | — | — |
| 698 | 139 | 132 | 342 | — | 211 |
| — | — | 733 | 68 | 149 | 4 |
| $382,749 | $351,834 | $689,404 | $403,783 | $508,572 | $420,162 |

## BOARD OF DIRECTORS

EDGAR F. KAISER, JR.
*Vancouver, B.C.*
*Chairman, President & Chief Executive Officer*

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*President*
*McIntosh Centre Ltd.*

ARTHUR J. BLOCK
*Vancouver, B.C.*
*President*
*A.R. Holdings Ltd.*

HARRY BOOTH
*Calgary, Alta.*
*Chairman and Chief Executive Officer*
*Alberta and Southern Gas Co. Ltd.*
*Alberta Natural Gas Company Ltd*

THOMAS A. BUELL
*Vancouver, B.C.*
*Chairman, President and Chief Executive Officer*
*Weldwood of Canada Ltd.*

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*Vancouver, B.C.*
*Retired*

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*Vancouver, B.C.*
*Vice-Chairman*
*Royal Canadian Securities Limited*

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*Piedmont, California*
*President, U.S. Operations*
*Bank of British Columbia*

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*Vancouver, B.C.*
*Adviser*
*Bank of British Columbia*

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*West Vancouver, B.C.*
*Vice-Chairman*
*Bank of British Columbia*

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*President and Chief Executive Officer*
*Inland Natural Gas Co. Ltd.*

JOHN C. KERR
*Vancouver, B.C.*
*President*
*Lignum Ltd.*

DAVID S.C. LAM
*Vancouver, B.C.*
*Chairman and President*
*Canadian International Properties Ltd.*

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*Vancouver, B.C.*
*President*
*Hosmer Holdings Ltd.*

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*North Vancouver, B.C.*
*President and Chairman of the Board*
*B.C. Bearing Engineers Ltd.*

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*Alberta Wheat Pool*

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*Edmonton, Alta.*
*Vice-President*
*Chairman*
*Mitchell & Associates Ltd.*

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*Edmonton, Alta.*
*President*
*Stuart Olson Construction Ltd.*

DALE G. PARKER
*Vancouver, B.C.*
*President, Canadian Banking Operations*
*Bank of British Columbia*

BRYAN J. REYNOLDS
*Vancouver, B.C.*
*Partner*
*Lawrence & Shaw*

PETER PAUL SAUNDERS
*Vancouver, B.C.*
*Chairman and President*
*Versatile Corporation*

JOHN L. SCHLOSSER
*Edmonton, Alta.*
*President*
*Tri-Jay Investments Ltd.*

## OFFICERS OF BANK OF BRITISH COLUMBIA

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GEORGE E. HARE
*Vice-Chairman*

GEORGE L. FARINSKY
*President, U.S. Operations*

DALE G. PARKER
*President, Canadian Banking Operations*

GORDON R. WALLACE
*Executive Vice-President*

### Senior Vice-Presidents

WILLIAM H. ADAMS
*U.S. Operations*

HENRY J. BOW
*International Division*

HELMUT C. HARTMANN
*Corporate Banking*

ARNOLD E. MILES-PICKUP
*Treasurer*

JOHN A. THOMAS
*Controller*

MICHAEL R.V. WHITMAN
*U.S. Operations*

### Vice-Presidents

EARL V. ANDRUSIAK
*Northern Alberta & Manager Edmonton Main Office*

R.J. BUCHANAN
*Manager, Calgary Main Office*

CANDACE U. CRADDOCK
*Planning & Legislation*

HUGH DALGLEISH
*Chief Inspector*

ANDREW K.C. EE
*Chief Dealer, Foreign Treasury*

W. ALAN FRANKLIN
*Systems & Information Processing*

KENNETH G. ISARD
*Real Estate, Corporate Banking*

GEORGE F. LEDWITH
*U.S. Operations*

P. NEIL McEACHERN
*Administration & Operations*

PHILIP A. PEPIN
*Manager, Burrard & Hastings*

L. GRANT SPITZ
*Human Resources*

PETER H. STAFFORD
*General Counsel & Secretary*

JAMES D. STODDART
*Leasing, President, WestBank Leasing Limited*

PAUL E. VILLENEUVE
*Credit Department*

THOMAS B. WELSH
*Energy (Calgary), Corporate Banking*

## BANK OF BRITISH COLUMBIA OFFICES & BRANCHES

### Head Office
*1235 Two Bentall Centre*
*555 Burrard Street*
*Vancouver, B.C.*
*V7X 1K1*

### Corporate Banking
Energy Department
*Calgary, Alberta*
*3rd Floor*
*777-8th Avenue S.W.*

### International Banking
European Representative Office
*London, England*
*The Old Deanery*
*Deans Court*

British Columbia Financial Corp. (H.K.) Limited
*3407 Gloucester Tower*
*The Landmark*
*11 Pedder Street, Hong Kong*

Cayman Islands Branch
*P.O. Box 2198*
*Transnational House*
*Grand Cayman*
*Cayman Islands*
*British West Indies*

### U.S. Operations
San Francisco Agency
*San Francisco, California*
*300 Montgomery Street, Suite 735*

Representative Office
*Los Angeles, California*
*707 Wilshire Boulevard, Suite 3770*

## BRITISH COLUMBIA BRANCHES

### VANCOUVER & LOWER MAINLAND

**999 West Hastings Street**
P.A. Pepin
*Vice-President & Manager*

**Broadway & Ash**
*U4-601 West Broadway*
J.C. Dowle
*Manager*

**Burnaby**
*5210 Kingsway*
J.R. Bateman
*Manager*

**Burnaby**
*9952 Lougheed Highway*
C.W. Kroeker
*Manager*

**Burnaby**
*4106 East Hastings Street*
A.A. Bakke
*Manager*

**Chinatown**
*601 Main Street*
H. Fetigan
*Assistant Vice-President & Manager*

**1010 Denman Street**
P.L. Booth
*Manager*

**Fraser & 48th**
*6373 Fraser Street*
K.O. Rehill
*Manager*

**937 West Georgia Street**
P.L. Cote
*Manager*

**Granville & 12th**
*2735 Granville Street*
J.B. Carlson
*Manager*

**Hastings & Penticton**
*2590 East Hastings Street*
T.A. Hockin
*Assistant Vice-President & Manager*

**Kerrisdale**
*2164 West 41st Avenue*
C.G. Pickavance
*Manager*

**Kingsway & Senlac**
*3398 Kingsway*
D.H. Bendell
*Manager*

**New Westminster**
*600 Columbia Street*
L.G. Steele
*Manager*

**New Westminster**
*504-6th Street*
M.M. Schumacher
*Manager*

**North Delta**
*8701-120th Street*
G.D. Segal
*Manager*

**North Vancouver**
*1457 Lonsdale Avenue*
E.A. Dalgarno
*Manager*

**Port Coquitlam**
*41 Poco Place*
*2755 Lougheed Highway*
K.B.G. Statham
*Manager*

**Richmond**
*6800 No. 3 Road*
R.S. Ramshaw
*Manager*

**Surrey**
*10241 King George Highway*
W.B. Nicholson
*Manager*

**10th & Sasamat**
*4480 West 10th Avenue*
A.J. McGoran
*Manager*

**West Vancouver**
*1578 Marine Drive*

**White Rock**
*1493 Johnston Road*
T.L. Beninger
*Manager*

### FRASER VALLEY

**Abbotsford**
*33700 Essendene Avenue*
G.D. Huston
*Manager*

**Chilliwack**
*9345 Main Street*
J.G. Smith
*Manager*

**Haney**
*11955-224th Street*
A.H. Ackland
*Manager*

**Langley**
*20437 Fraser Highway*
P.A. O'Connor
*Manager*

### INTERIOR/NORTHERN B.C.

**Cranbrook**
*928 Baker Street*
M.J. Szeler
*Manager*

**Kamloops**
*380 Victoria Street*
L.C. Earle
*Manager*

**Kelowna**
*384 Bernard Avenue*
R.B. Lindsay
*Manager*

**Penticton**
*294 Main Street*
H.J. Shaver
*Manager*

**Vernon**
*3321-30th Avenue*
M.D. Krause
*Manager*

**Prince George**
*201 Victoria Street*
P.D. Peake
*Manager*

### VANCOUVER ISLAND

### VICTORIA

**Main**
*752 Fort Street*
H.J. Steele
*Manager*

**Douglas & Hillside**
*2640 Douglas Street*
L.D. Ettinger
*Manager*

**Douglas & Johnson**
*1327 Douglas Street*
and

**Oak Bay**
*2044 Oak Bay Avenue*
T.A. Brown
*Manager*

**Nanaimo**
*70 Commercial Street*
J.M. Foster
*Manager*

**Campbell River**
*1000 Shoppers Row*
D.W. Watkin
*Manager*

## ALBERTA BRANCHES

### CALGARY

**Main**
*777-8th Avenue S.W.*
R.J. Buchanan
*Vice-President & Manager*

**Alberta Place**
*1530-4th Street S.W.*
E.W. Widdifield
*Manager*

**15th & Centre Street**
*1511 Centre Street N.W.*
R.T. McWhirter
*Manager*

**Forest Lawn**
*3620-17th Avenue S.E.*
J.L. Unterschultz
*Manager*

**74th & Macleod Trail**
*7403 Macleod Trail S.W.*
W.C. Crawford
*Manager*

### EDMONTON

**Main**
*10561 Jasper Avenue*
E.V. Andrusiak
*Vice-President, Northern Alberta & Manager*

**82nd & 104th**
*8139-104th Street*
M.S. Cottrell
*Manager*

**97th & 130th**
*13043-97th Street*
M.T.E. Mulcahy
*Manager*

**118th & 82nd**
*8204-118th Avenue*
W.E. Johnson
*Manager*

**Jasper Place**
*15103 Stony Plain Road*
J.R. Bronson
*Manager*

**Grande Prairie**
*214 Place*
*10139-100th Avenue*
W.N. Jones
*Manager*

**Lethbridge**
*326-5th Street South*
J.C. Helms
*Manager*

**Medicine Hat**
*435-3rd Street S.E.*
D.G. Miller
*Manager*

## SASKATCHEWAN BRANCHES

### REGINA

**Cornwall Centre**
*2091-2102-11th Avenue*
G.J. Sprung
*Senior Manager, Southern Saskatchewan & Manager*
D.G. Seaman
*Senior Manager, Deposit Marketing, Saskatchewan*

**Southland Mall**
*2995 Gordon Road*
W.D. Hart
*Manager*

**Saskatoon**
*200-3rd Avenue, South*
M.R. Feist
*Senior Manager, Northern Saskatchewan*
K.M. Robertson
*Manager*

**Prince Albert**
*Gateway North Plaza*
*1403 Central Avenue*
G.A. Wilson
*Manager*

**Lloydminster**
*4723-50th Avenue*
S.P. Rowe
*Manager*

**Estevan**
*1213-4th Avenue*
B.G. Gardiner
*Manager*

## MANITOBA BRANCHES

**Winnipeg**
*379 Broadway*
A.K. Brownlee
*Manager*

**Dauphin**
*Dauphin Market Place*
*1450 Main Street*
L.A. Pierce
*Manager*

Canada's Western Bank

Bank of British Columbia

LITHO'D IN CANAD